

Flat Rate Scheme for Small Businesses

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The HMRC has recently made some changes to their flat rate scheme for small businesses which may affect you. For more information visit the HMRC website "Flat Rate Scheme" page or contact Peter at PJC Accounting Services. The extract below is taken from the HMRC website.

What is the Flat Rate Scheme?

The Flat Rate Scheme is designed to simplify your records of sales and purchases. It allows you to apply a fixed flat-rate percentage to your gross turnover to arrive at the VAT due.

Fixed-rate percentages vary depending on the type of business.

How will it help me?

The main benefits of the scheme are:

- simplified record keeping, as you do not have to keep detailed records of sales and invoices
- fixed-rate percentages that are lower than the standard rate
- it helps manage cash flow

Will all businesses benefit?

Not every business will benefit from the scheme:

- if your customers are VAT registered you will have to calculate the VAT and issue VAT invoices in the normal way
- for businesses who buy and sell goods from outside the UK, the scheme may become more complex, ([see paragraph 6.4](#) from the HMRC website).
- if you usually claim Input Tax, ([see paragraph 2.4](#))

Also, as the flat rates are averages, you may pay more VAT on the Flat Rate Scheme than you would on normal accounting.

What about input tax?

If you use the Flat Rate Scheme, you do not recover input tax or VAT on imports or acquisitions. This is because the flat rates are

calculated to represent the net VAT you need to pay to HM Revenue and Customs (HMRC). In other words, an allowance for input tax is built into the flat rates.

There are special rules when you buy high value capital goods further information can be found on the HMRC website link below. There are special rules when you buy high value capital goods [Section 15](#) explains how you can claim back the VAT on these purchases.

Who can join the scheme?

The scheme is for businesses with a turnover no more than £150,000 a year, excluding VAT. There are some additional rules to stop abuse of the scheme. If you want to know more, section 3 explains the joining conditions in more detail.

The Flat Rate Scheme is a simpler method of working out the VAT you have to pay to HMRC and so is unsuitable where you regularly receive repayments from HMRC.

What next?

There is a wealth of information on the HMRC website. Simply search for "Flat Rate Scheme".

Alternatively you can contact us to discuss how the scheme would affect your business.

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Peter